

KENTUCKY ECONOMIC INDICATORS

August 2005 Indicators as of October 19, 2005

KY Composite Index of Leading Indicators decreased 1.2 percent in August.

- The Leading Index decreased for the third time this year.
- The Leading Index rose by 1.2 percent over the same month last year.
- Component indicators leaned negative, 2:3.
 - + KY Labor Intensity Index increased 0.2 percent.
 - The US Leading Index decreased 2.6 percent.
 - The KY Index of Initial UI Claims decreased 6.1 percent.
 - US Retail Sales decreased 20.2 percent.
 - + The Louisville Help Wanted Index increased 5 points to 46.

Component weights for August are 52.51, 19.85, 15.22, 10.66 and 1.76 respectively.

KY Composite Index of Coincident Indicators decreased 2.9 percent in August.

- The Coincident Index was negative for the third time this year.
- Same-month-last-year growth is positive for the twenty-fifth consecutive month at 1.9 percent.
- Component indicators leaned positive, 2:1.
 - + KY Total Nonagricultural Employment increased 2.3 percent.
 - + US Industrial Production Index increased 1.8 percent.
 - US Personal Income Less Transfers decreased 14.8 percent.

Component weights for August are 32.79, 29.72 and 26.56 respectively. Component weights do not sum to one because the two US components were discounted to allow the Kentucky component more weight.

The Leading Index declined for the third time this year in August. The August decline is the result of moderate to strong declines in the US Leading Index, the Kentucky Index of Initial Unemployment Insurance Claims and US Retail Sales. This is the second straight decline for the US Leading Index. US components are also very mixed. Money Supply (M2) and the Interest Rate Spread (of 10 year Treasury bonds less the Federal Funds rate) were primarily responsible for the US Leading Index decline for August. M2 has been relatively stable the last 12 months, following a period of fast growth between 1995 and 2003. The Interest Rate Spread continues to steadily decline as the Federal Reserve Board continues to raise the Federal Funds rate for overnight loans. Historically, these two series carry a high weight in the US Leading Index because they have relatively low variance compared to the other series in the index.

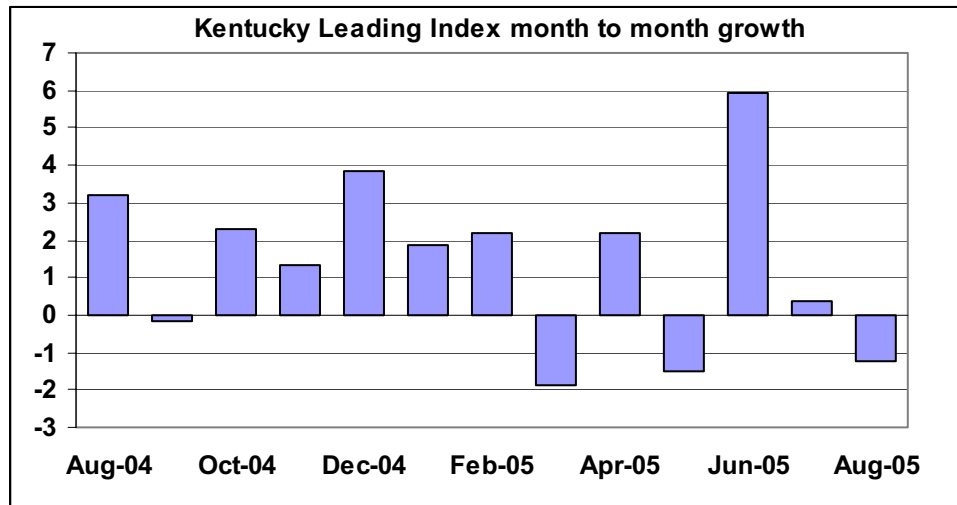
The Kentucky Index of Initial Unemployment Insurance Claims has been very erratic over the last 15 months, but trend since the end of the 2001 recession has been positive. The index is currently at the same mark as it was in January at 102.8. US Retail Sales dipped sharply in August. The series is still trending strongly upward.

There was considerable movement in all of the components in August. The Kentucky Labor Intensity Index ended its string of declines with a small gain for August. This is significant as the Kentucky Labor Intensity Index carries the most weight in the Kentucky Leading Index. The Louisville Help Wanted Index came out of hibernation in August with a five point gain. That is the largest movement by the Help Wanted Index since last September when the series fell by seven points.

Kentucky Manufacturing Employment rebounded as expected. The series displayed a deeper than usual fall in employment in July. This was due to a timing issue between the July 4th weekend annual slowdown and the official polling week (which includes the 12th day of the month) of the Bureau of Labor Statistics. This phenomenon has occurred for the last two years in a row. The good news is that Manufacturing Employment for August rose to a level higher than the June level. This is encouraging no matter how one looks at it. Manufacturing Employment in Kentucky fell by 47,800 jobs between May 2000 and April 2004, and manufacturing employment growth has been flat since then. Kentucky Nonagricultural Employment rose 2.3 percent in August, but it was 500 jobs short of its June level.

Overall, Kentucky Nonagricultural Employment is doing very well. It has made up 79.9 percent of its losses from the 2001 recession. The expansion officially began in November 2001 according to the National Bureau of Economic Research, which is responsible for determining turning points in the US business cycle. During the 1980-81 twin recessions, Kentucky Nonagricultural Employment peaked in April 1980 and troughed in July 1983. Kentucky Nonagricultural Employment lost 76,700 jobs, or 6.2 percent of its total. By July 1984 employment surpassed its former peak. That is 12 months from recession trough to surpass its previous peak. During the 1990 recession, employment peaked in August 1990 and troughed in March 1991. Kentucky Nonagricultural Employment lost 13,000 jobs, or 0.9 percent of its total. By October 1991 employment surpassed its former peak. That is seven months from recession trough to surpass its previous peak. Currently, we have regained 79.9 percent of our recession losses and it has been 25 months since the expansion started. So while growth is strong in employment, this is the longest recovery in the last three decades.

Our indices are compiled and published on a monthly basis, roughly two weeks following the Conference Board release of the U.S. Leading Index. A complete description of the Index of Leading Indicators and methodology was published in the University of Kentucky Center for Business and Economic Research *Kentucky Annual Economic Report, 2000*.



About the Indicators

Kentucky Reference Series

Inflation-adjusted personal income less transfer payments and policy-adjusted general fund tax receipts are combined to form the GOEA composite reference series.

Kentucky Leading Indicators

- **GOEA Labor Intensity Index:** Composed of seasonally adjusted weekly hours multiplied by employment for the following manufacturing industries: Lumber products, chemical and allied products, rubber and plastic products, fabricated metals, and transportation equipment.
- **GOEA Initial Unemployment Insurance (UI) Claims Index:** This index has two components: Kentucky UI claims in their first month of payment and total U.S. initial claims. Additional claims for UI are the subset of initial claims filed by workers who have previously filed UI claims but are currently filing new claims with intermittent workforce attachment since their original claim. The claims in their first month of payment without intermittent qualified experience performed better in the testing process and were chosen accordingly.
- **Louisville Help-wanted Index:** The Conference Board computes an index of help-wanted advertisements for major regions across the United States; Louisville is the only city in Kentucky covered by the Conference Board.
- **U.S. Manufacturing and Trade Sales:** This series outperformed Kentucky sales tax receipts and U.S. total retail sales. Current manufacturing and trade sales help form the basis for business expectations for the immediate short run. Since production and investment do not occur instantaneously, the formation of expectations (manifested through current manufacturing and trade sales) should slightly lead the business cycle.
- **GOEA U.S. Leading Index:** We eliminated two variables, UI Claims and weekly hours, from the U.S. leading index since we already use the Kentucky equivalents. The remaining eight components of the U.S. leading index were tested, eliminating both the interest rate spread and the slower deliveries diffusion index of vendor performance. The remaining six components were then re-indexed by GOEA.

Table Notes:

- 1) Growth rates are computed with precise numbers. Due to rounding, two observations may have the same reported value but still exhibit growth at a more precise level.
- 2) More information is available on our website, www.osbd.ky.gov

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**SELECTED KENTUCKY ECONOMIC INDICATORS
SEASONALLY ADJUSTED**

	2004				2005								
	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG
KY Leading Index (1992=100)	117.7	117.7	117.9	118.0	118.4	118.6	118.8	118.6	118.8	118.7	119.3	119.3	119.2
% Chg Previous Month SAAR	3.2	-0.2	2.3	1.4	3.9	1.9	2.2	-1.9	2.2	-1.5	5.9	0.4	-1.2
% Chg Same Month Last Year	2.4	1.6	2.1	2.0	1.9	1.9	1.8	1.0	1.3	0.9	1.4	1.6	1.2
KY Coincident Index (1992=100)	130.7	130.6	131.3	131.5	133.4	132.1	132.4	132.6	132.7	132.9	133.5	133.5	133.2
% Chg Previous Month SAAR	2.6	-1.0	6.7	2.2	17.9	-11.0	2.7	2.0	0.9	2.1	5.3	-0.0	-2.9
% Chg Same Month Last Year	2.5	2.2	2.5	2.2	3.4	2.3	2.1	2.3	2.1	2.1	2.6	2.4	1.9
KY Nonag Employment (000s)	1,796.7	1,798.6	1,801.0	1,800.7	1,802.7	1,802.4	1,803.6	1,807.1	1,815.1	1,816.7	1,821.2	1,817.3	1,820.7
% Chg Previous Month SAAR	4.8	1.3	1.6	-0.2	1.3	-0.2	0.8	2.4	5.4	1.1	3.0	-2.5	2.3
% Chg Same Month Last Year	0.8	0.8	0.8	0.8	0.7	0.7	0.7	0.8	1.0	1.3	1.4	1.5	1.3
KY Mfg Employment (000s)	264.6	264.4	265.5	264.7	264.2	264.6	264.5	265.1	266.0	266.4	265.4	259.6	265.5
% Chg Previous Month SAAR	34.2	-0.9	5.1	-3.6	-2.2	1.8	-0.5	2.8	4.2	1.8	-4.4	-23.3	31.0
% Chg Same Month Last Year	0.1	0.0	0.5	0.2	-0.2	0.0	0.0	0.3	0.7	0.7	0.5	0.5	0.3
KY Unemployment Rate (%)	5.1	4.9	4.8	4.7	4.7	5.0	5.2	5.3	5.6	5.7	5.7	5.9	5.4
KY Index of Initial UI Claims	102.0	102.5	103.0	102.4	103.1	102.8	104.0	103.3	103.6	102.6	103.4	103.4	102.8
% Chg Previous Month SAAR	3.2	5.4	6.5	-7.3	8.3	-3.0	14.6	-7.0	3.5	-11.5	10.1	-0.4	-6.1
% Chg Same Month Last Year	1.7	2.4	1.9	1.1	1.7	1.0	2.6	1.2	1.5	0.2	1.0	1.6	0.8
KY Labor Intensity Index (1992=100)	105.1	105.1	105.1	105.3	105.3	105.6	105.6	105.7	105.7	105.7	105.5	105.2	105.3
% Chg Previous Month SAAR	3.3	0.1	0.1	1.3	0.5	4.1	-1.1	1.3	0.9	-0.6	-2.3	-2.9	0.2
% Chg Same Month Last Year	0.7	0.7	0.7	0.7	0.8	1.0	0.8	0.7	0.7	0.6	0.4	0.4	0.1
Louisville HWI (1992=100)	47.0	40.0	41.0	42.0	41.0	42.0	41.0	40.0	38.0	39.0	41.0	41.0	46.0
% Chg Previous Month SAAR	68.5	-85.6	34.5	33.5	-25.1	33.5	-25.1	-25.6	-46.0	36.6	82.2	0.0	297.8
% Chg Same Month Last Year	0.0	-45.2	-18.0	-14.3	-28.1	-16.0	-25.5	-28.6	-25.5	-18.8	-19.6	-8.9	-2.1
GF Total Tax Receipts (\$ mill)	513.4	655.0	563.6	587.9	709.7	659.6	500.8	568.6	808.4	525.6	738.7	573.9	555.1
% Chg Same Month Last Year	11.7	4.1	6.3	10.7	5.0	13.1	8.3	11.7	12.1	9.6	16.6	10.5	8.1
GF Sales & Use Receipts (\$ mill)	211.7	206.6	224.0	201.1	217.7	271.4	176.3	200.1	224.2	216.1	219.6	238.5	217.4
% Chg Same Month Last Year	7.3	3.1	5.0	1.0	4.7	8.8	7.5	8.2	3.1	5.1	9.9	5.5	2.7
GF Income Tax Receipts (\$ mill)	245.2	272.2	249.9	230.2	259.0	252.6	231.5	176.1	413.7	215.3	266.3	238.1	250.8
% Chg Same Month Last Year	9.4	-0.3	9.5	2.8	4.6	21.9	6.6	24.0	12.8	13.6	-1.4	6.2	2.2

**SELECTED U.S. ECONOMIC INDICATORS
SEASONALLY ADJUSTED**

	2004						2005						
	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG
US Leading Index (1982=100)	135.1	135.2	135.2	136.0	136.9	136.8	137.1	136.2	136.3	136.5	138.0	137.9	137.6
% Chg Previous Month SAAR	0.9	0.9	0.0	7.3	8.2	-0.9	2.7	-7.6	0.9	1.8	14.0	-0.9	-2.6
% Chg Same Month Last Year	7.4	6.7	5.7	5.7	5.5	4.5	4.3	2.4	2.3	1.9	2.6	2.1	1.9
US Coincident Index (1992=100)	117.9	117.9	118.4	118.8	120.3	119.5	119.7	119.8	120.1	120.3	120.8	120.9	121.1
% Chg Previous Month SAAR	2.1	0.0	5.2	4.1	16.2	-7.7	2.0	1.0	3.0	2.0	5.1	1.0	2.0
% Chg Same Month Last Year	2.9	2.6	2.9	2.8	3.9	3.1	3.0	2.7	2.7	2.6	3.0	2.7	2.7
US Nonag Employment (Mil.)	131.8	131.9	132.2	132.3	132.4	132.6	132.9	133.0	133.3	133.4	133.6	133.9	134.1
% Chg Previous Month SAAR	1.7	1.2	2.6	1.2	1.4	1.1	2.7	1.1	2.7	1.1	1.6	2.5	1.9
% Chg Same Month Last Year	1.5	1.5	1.6	1.6	1.7	1.7	1.8	1.7	1.7	1.6	1.6	1.8	1.8
US Unemployment Rate (%)	5.4	5.4	5.5	5.4	5.4	5.2	5.4	5.2	5.2	5.1	5.0	5.0	4.9
US Initial Claims for UI (000s)	340.5	344.9	338.6	334.1	330.0	330.1	307.4	337.8	321.9	334.7	320.7	316.7	317.0
% Chg Previous Month SAAR	-6.5	16.7	-19.8	-14.8	-13.8	0.4	-57.5	210.1	-43.9	59.7	-40.1	-14.0	1.1
% Chg Same Month Last Year	-14.8	-13.4	-11.0	-8.9	-8.7	-7.0	-13.7	-1.9	-6.8	-2.6	-5.6	-7.5	-6.9
US Industrial Production Index	116.0	115.7	116.6	116.9	117.9	117.8	118.3	118.6	118.1	118.5	119.4	119.4	119.6
% Chg Previous Month SAAR	1.1	-3.3	10.1	3.1	10.3	-1.6	5.8	3.0	-5.2	4.1	9.7	0.5	1.8
% Chg Same Month Last Year	5.0	3.9	4.6	3.8	4.4	4.0	3.4	3.9	2.9	2.5	3.7	3.0	3.1
US Personal Income Less Trans. (Bil. 92\$)	7,648.7	7,639.4	7,713.9	7,745.8	8,071.9	7,794.2	7,811.7	7,820.2	7,839.6	7,853.2	7,887.6	7,905.1	7,800.5
% Chg Previous Month SAAR	2.9	-1.4	12.4	5.1	64.0	-34.3	2.7	1.3	3.0	2.1	5.4	2.7	-14.8
% Chg Same Month Last Year	2.9	2.8	3.3	2.9	7.2	3.4	3.4	3.5	3.5	3.5	4.1	3.6	2.0
CPI, All Urban (1982-84=100)	189.3	189.6	190.7	191.2	191.2	191.3	192.0	193.2	194.2	194.1	194.1	195.1	196.1
% Chg Previous Month SAAR	0.6	1.9	7.2	3.2	0.0	0.6	4.5	7.8	6.4	-0.6	0.0	6.4	6.3
% Chg Same Month Last Year	2.7	2.5	3.2	3.6	3.4	2.9	2.9	3.2	3.5	2.8	2.5	3.1	3.6
US Retail Sales (Bil. 84\$)	324.3	329.9	332.3	332.4	336.6	336.8	339.0	340.1	346.1	344.9	351.3	357.3	350.6
% Chg Previous Month SAAR	1.2	22.9	9.1	0.4	16.2	0.7	8.1	3.9	23.4	-3.9	24.6	22.4	-20.2
% Chg Same Month Last Year	5.0	7.7	8.6	7.3	8.9	8.0	8.0	6.0	9.1	6.3	9.8	10.3	8.1
Manufacturing & Trade Sales (000s)	920.7	921.1	922.9	924.6	936.9	940.2	933.1	932.9	937.8	944.3	948.4	952.5	*954.9
% Chg Previous Month SAAR	6.3	0.6	2.4	2.2	17.1	4.3	-8.8	-0.3	6.5	8.6	5.3	5.3	3.2
% Chg Same Month Last Year	6.1	5.5	5.2	4.8	5.6	6.1	4.9	2.1	3.5	3.8	4.2	4.0	3.7
US Consumer Expectations (1966=100)	88.2	88.0	83.8	85.2	90.9	85.7	84.4	82.8	77.0	75.3	85.0	85.5	76.9
% Chg Previous Month AR	-33.1	-2.7	-44.4	22.0	117.5	-50.7	-16.8	-20.5	-58.2	-23.5	328.0	7.3	-72.0
% Chg Same Month Last Year	6.9	8.9	1.0	-3.3	1.2	-14.4	-4.6	-6.8	-11.8	-7.7	-4.0	-6.3	-12.8
Ave. Prime Interest Rate (%; NSA)	4.42	4.58	4.75	4.93	5.14	5.25	5.49	5.58	5.75	5.98	6.01	6.25	6.44
*ARIMA estimation													